

CITY AUDITOR'S OFFICE



SPECIAL REPORT

RENTAL AGREEMENT BETWEEN THE CITY OF LAS VEGAS AND THE MEXICAN PATRIOTIC COMMITTEE

Report No. CAO 2300-0102-01

August 6, 2001

RADFORD K. SNELDING, CPA, CIA, CFE

CITY AUDITOR



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August 6, 2001

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Councilman Michael Mack
City of Las Vegas Audit Committee

Subject: CAO 2300-0102-01 - Special Report – Rental Agreement between the
City of Las Vegas and the Mexican Patriotic Committee

Attached please find the report mentioned above. Management responses are included at the end of the report.

Sincerely,

A handwritten signature in dark ink, appearing to read "Radford K. Snelding", is written over a horizontal line.

Radford K. Snelding, CPA, CIA, CFE
City Auditor

CITY AUDITOR'S OFFICE

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**SPECIAL REPORT
RENTAL AGREEMENT
BETWEEN THE CITY OF LAS VEGAS
AND THE MEXICAN PATRIOTIC COMMITTEE
CAO 2300-0102-01**

OBJECTIVES

The City Manager's Office requested the City Auditor's Office to audit the rental agreement and addendum between the city of Las Vegas and the Mexican Patriotic Committee (MPC) for the May 6, 2001 Cinco de Mayo event (the Agreement). Our audit objectives were to:

- Determine whether the City received all fees from the MPC in accordance with the Agreement;
- Determine whether the MPC and the City were in compliance with the terms of the Agreement; and
- Identify and recommend areas for improvement in the oversight of agreements and/or contracts.

SCOPE AND METHODOLOGY

We performed our fieldwork in accordance with generally accepted governmental auditing standards. General audit procedures included:

- Reviewing the Agreement;
- Examining all relevant records, reports, and other applicable documentation; and
- Interviewing pertinent personnel.

Our scope was externally impaired in the following way:

- Some of the records and supporting documents related to the May 6, 2001 event either did not exist or were not available for our review.

BACKGROUND

On March 21, 2001, the city of Las Vegas entered into a rental agreement with the MPC pursuant to the production of the Cinco de Mayo event (the Event). Subsequently, the City Manager agreed to reduce the fees for the Event to the previous year's fee schedule. An addendum to the rental agreement reflecting these reduced fees was executed on April 26, 2001. The Event was held on May 6, 2001 at Freedom Park.

As a promoter of the Event, the MPC rented booths to vendors to sell food, beverages, merchandise and services. Beer was sold exclusively by the MPC.

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CONCLUSIONS / FINDINGS / RECOMMENDATIONS

During our fieldwork, the MPC and the Department of Leisure Services (Leisure Services) were cooperative in supplying information related to the Agreement. However, we were unable to determine certain fees the MPC owes the City because supporting documents either did not exist or were not available. Based on available information, we determined the MPC underpaid the City at least \$15,000 in fees related to the Event. Our audit indicated that the MPC did not comply with many conditions of the Agreement. Furthermore, Leisure Services failed to properly monitor the MPC's compliance with the Agreement and did not sufficiently pursue fees owed.

The following sections detail our findings and recommendations.

A. FEES

The Agreement stipulates several types of fees payable by the MPC. It also states that the City must receive all payments within five business days following the Event. We identified the following underpayments by the MPC:

Fees	Underpayments
Gate Admission Fees	\$ 1,437
Event Fee	10,869
Booth Fees	730
Beer Sales	2,304
Food and Beverage Sales	indeterminable
Total	\$ 15,340

1. Gate Admission Fees

- *The Agreement stipulates that gate admission fees are to be two dollars for children and five dollars for adults. The MPC was to provide the City with a list of all complimentary admissions.*
- According to the MPC, a total of 18,692 people attended the Event including 5,087 adults, 12,130 children, 895 seniors, and 580 complimentary admissions.
- The MPC chose to only charge adults for admission. Children and seniors attended the Event without paying admission fees.

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- The MPC did not provide the City a list of complimentary admissions.
- The MPC reported that a total of \$25,435 ($\$5 \times 5,087$ adults) gate admission fees were collected. On June 6, 2001, the MPC paid the City its 5% share of gate admission fees \$1,271.75 ($5\% \times \$25,435$).
- Since the MPC did not collect gate admissions from 12,130 children and 895 seniors, a total of \$28,735 ($\$2 \times 12,130 + \5×895) in gate admission fees were waived.
- The MPC did not obtain authorization from the City to waive gate admissions.
- The MPC did not compensate the City for its share of the waived admission fees.
- The City's 5% share of the \$28,735 waived admission fees is approximately \$1,437.

2. Event Fee

- *According to the Agreement, the MPC was to pay the City an event fee of \$75 per hour per 1,000 participants.*
- The MPC paid an estimated event fee of \$3,150 ($\$75/\text{hr} \times 7 \text{ hours} \times 6 \text{ thousand participants}$) on April 11, 2001 based on 6,000 participants attending the Event over a seven-hour period (from 11 a.m. to 6 p.m.)
- At the end of the Event, the MPC reported to the City that a total of 18,692 people attended the Event.
- According to the event tickets and the MPC's event brochure, the Event was scheduled from 10 a.m. to 8 p.m. – a total of ten hours, rather than the estimated seven hours.
- Based on 18,692 people attending the Event for 10 hours, the event fee should have been \$14,019 ($\$75/\text{hr} \times 10 \text{ hours} \times 18.692 \text{ thousand participants}$).
- Therefore, the MPC underpaid the City \$10,869 ($\$14,019 - \$3,150$) for the event fee.

3. Booth Fees

- *In accordance with the Agreement, the City was to receive 5% of all booth fees the MPC charged the vendors.*
- On May 14, 2001, Leisure Services invoiced the MPC \$600 for booth fees based on 5% of \$250 per booth and 48 booths. The MPC made the payment on June 6, 2001.

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- The MPC indicated that vendors paid a fee of \$350 for renting a booth. However, corporate sponsors which contributed at least \$500 were not required to pay booth fees.
- During the Event, the City's Business License staff conducted on-site inspections and identified at least 76 booths. The MPC accepted the inspection results and remitted the additional license fees to Business License on June 12, 2001. However, inspection results were not communicated to Leisure Services.
- Based on 76 vendors paying a \$350 booth rental fee, the City's 5% share of booth fees should have been \$1,330 ($\$350/\text{booth} \times 76 \text{ booths} \times 5\%$).
- Therefore, the MPC owes the City an additional \$730 ($\$1,330 - \600) for its share of booth fees.

4. Beer Sales

- *The Agreement stipulates that the MPC will pay the City 5% of vendor food and beverage sales.*
- Beer was sold exclusively by the MPC for \$4 per bottle.
- According to Leisure Services, the MPC did not provide information on beer sales or make payment for the City's 5% share.
- Based on the MPC's beer invoices, a total of 11,520 bottles were sold. Total beer sales were \$46,080 and the City's 5% share is \$2,304.
- The MPC informed the City Auditor's Office that revenue from beer sales was \$36,054.
- The MPC could not account for the difference of \$10,026 ($\$46,080 - \$36,054$) from beer sales.
- Therefore, based on \$46,080 of beer sales, the MPC owes the City an additional \$2,304 ($\$46,080 \times 5\%$).

5. Food and Beverage Sales

- *The Agreement stipulates that the MPC will pay the City 5% of vendor food and beverage sales.*
- The MPC did not collect food and beverage sales information from the vendors.

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- On May 14, 2001, Leisure Services invoiced the MPC \$400 for the City's 5% share of food and beverage sales based on staff's estimate of \$8,000 sales. The MPC paid this invoice on June 6, 2001, one month after the Event.
- We believe Leisure Services grossly underestimated food and beverage sales for the Event. Based on Leisure Services estimate, each participant would have only spent 43 cents (\$8,000 / 18,692 participants) on food and beverage, including beer, during the Event.
- We were not able to obtain reliable information on vendor food and beverage sales other than beer sales. Therefore, we cannot determine the amount the MPC owes the City for its share of food and beverage sales.

B. CONTRACT COMPLIANCE

Our audit indicated that the MPC did not comply with many terms and conditions of the Agreement. In addition, our audit identified an area of non-compliance by Leisure Services. The following summarizes the areas of non-compliance. Details can be found in APPENDIX I.

1. Areas of Non-compliance – Mexican Patriotic Committee

- a) The MPC failed to provide complete, accurate, and timely information on the Event for billing purposes (refer to Section A).
- b) The MPC exceeded agreed-upon times for set-up, the Event, and striking without notifying the City.
- c) The MPC did not submit a list of its sponsors to the City for approval.
- d) The MPC did not charge for children or seniors.
- e) The MPC did not pay the park damage deposit before the Event.
- f) Payments by the MPC to the City were late.
- g) The MPC did not meet with Metro prior to the Event.
- h) Copies of required music licenses were not provided by the MPC.
- i) Four vendors did not obtain proper Clark County Health District licenses before the Event.

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- j) No documentation was provided by the MPC as evidence of payment of taxes, workers' compensation insurance, and unemployment insurance.
- k) Evidence of general liability insurance coverage was provided late.
- l) Metro was not named as an additional insured on the general liability insurance.

2. Area of Non-compliance – Leisure Services

- a) Leisure Services staff did not measure the sound levels during the Event.

C. CONTRACT ADMINISTRATION

We noted that Leisure Services was deficient in managing and monitoring the Agreement in many areas including the following:

1. Damage Deposit

- According to the Agreement, the MPC was to pay the City a park damage deposit of \$3,600. The deposit was refundable if the park was cleaned and no damage occurred.
- The Agreement does not stipulate when the damage deposit is due.
- Leisure Services failed to collect the damage deposit from the MPC prior to the Event.

2. Attendance Counts

- According to the Agreement, the gate admission fees and event fee were to be calculated based on the number of participants at the Event.
- The MPC estimated that there would be 6,000 participants attending the Event.
- Following the Event, the MPC reported that there were 18,692 participants.
- Leisure Services did not have adequate planning and controls to verify the accuracy of attendance counts.

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- Leisure Services failed to invoice the MPC for the City's share of children and senior gate admissions waived by the MPC. Leisure Services also failed to invoice the MPC additional event fees for the additional number of participants.

3. Hours of Set-up, Event, and Strike

- According to the Agreement, the event fee was to be based on the number of specified hours for set-up, event, and strike as follows:
 - Set-up: \$25 per hour for four hours from 7 a.m. to 11 a.m.
 - Event: \$75 per hour for seven hours from 11 a.m. to 6 p.m.
 - Strike: \$25 per hour for four hours from 6 p.m. to 10 p.m.
- Our audit found that there were significant changes in these hours. For example, set-up started before noon the day before the Event and the Event ran from 10 a.m. to 8 p.m.
- Leisure Services staff did not sufficiently monitor actual hours of set-up, the Event, and strike.
- Leisure Services did not invoice the MPC additional fees for the extra hours.

4. Vendor Information

- According to the Agreement, the MPC was to pay the City 5% of vendor booth fees and food and beverage sales.
- Leisure Services did not hold the MPC accountable to provide such information or collect accurate and reliable information itself for billing purposes.
- For example, Leisure Services billed the MPC for 48 booths while there were at least 76 booths according to Business Licensing.
- Leisure Services estimated \$8,000 for food and beverage sales while beer sales alone were \$46,000.

RECOMMENDATIONS

1. Leisure Services should invoice and recover underpayments due from the Mexican Patriotic Committee.

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2. Leisure Services and the MPC should identify a reasonable and mutually acceptable method to determine the total vendor food and beverage sales.
3. Leisure Services should re-evaluate its contract administration and monitoring procedures to ensure proper contract oversight in the future.
4. Leisure Services should create and use a contract compliance checklist to document whether a contractor has complied with the terms and conditions of a contract.
5. Leisure Services should evaluate and document the adequacy of its contract pricing methodology.
6. Leisure Services should hold contractors/promoters responsible for providing accurate and complete billing information.
7. Leisure Services should improve communication with Business Licensing and the Clark County Health District and utilize their inspection results for contract monitoring purposes.

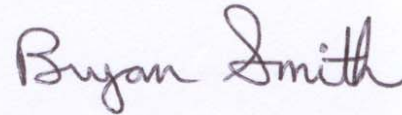
Prepared by:



Philip Cheng, CIA
Senior Internal Auditor

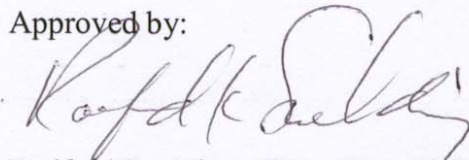


William Cimo, CISA
Senior Information Technology Auditor



Bryan Smith, CPA
Internal Auditor

Approved by:



Radford Snelding, CPA, CIA, CFE
City Auditor

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APPENDIX I : Contract Compliance Details

AGREEMENT TERMS	DESCRIPTION OF NON-COMPLIANCE
I. PERFORMANCE DATES AND TIMES	
➤ <i>The MPC will commence setting up the Event no earlier than 7 a.m.</i>	➤ Set-up began the day before the Event.
➤ <i>The Event will end by 7 p.m.</i>	➤ Metro indicated the Event ended after 7 p.m.
➤ <i>Striking the Event will be finished by 10 p.m. on May 6, 2001</i>	➤ Striking was not finished until noon the day after the Event.
➤ <i>The City must be notified of any changes regarding set-up, performance or strike no later than the week before the Event.</i>	➤ Changes were made but the City was not notified of these changes.
II. PROMOTION	
➤ <i>All outside sponsors contracted with the MPC will be submitted to the City for approval in advance of signing all final contracts.</i>	➤ Outside sponsors were not submitted to the City.
III. TICKET SALES	
➤ <i>Admission to the Event will be between \$2 (two dollars for children) and \$5 (five dollars for adults).</i>	➤ The MPC did not charge for children or seniors.
IV. FINANCIAL ARRANGEMENTS	
<i>The MPC will pay the following park usage fees if non-profit status is provided:</i>	
a. <i>Set-up: 7 a.m. to 11 a.m. at twenty-five dollars (\$25) per hour = one hundred dollars (\$100)</i>	➤ The MPC paid \$100 for a four-hour set-up time; however, set-up began the day before.
b. <i>Event: 11 a.m. to 6 p.m. at four hundred and fifty dollars (\$450) per hour = three thousand one hundred and fifty dollars (\$3,150)</i>	➤ The MPC paid the \$3,150 as calculated in the Agreement; however, the Event lasted longer than seven hours.

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AGREEMENT TERMS	DESCRIPTION OF NON-COMPLIANCE
IV. FINANCIAL ARRANGEMENTS	
<p><i>c. Strike:</i> <i>May 6, 6 p.m. to 10 p.m. at twenty-five (\$25) per hour</i> <i>= one hundred dollars (\$100)</i></p>	<p>➤ The MPC paid \$100 as calculated in the Agreement; however, the strike was not completed until noon the day after the Event.</p>
<p><i>d. Refundable park damage deposit:</i> <i>Six hundred dollars (\$600) X 6</i> <i>= three thousand six hundred dollars (\$3,600).</i></p>	<p>➤ The MPC did not pay the park damage deposit. ➤ Leisure Services did not ensure the deposit was paid prior to the Event.</p>
<p>➤ <i>With five (5) business days following the Event, the City will receive all payments due based on certified manifest and documentation from the MPC.</i></p>	<p>➤ No payments were received from the MPC until June 6, 2001, one month following the Event. ➤ No certified manifest or documentation was provided.</p>
V. STAFFING	
<p>➤ <i>The MPC will attend a meeting with Metro regarding use of security personnel on city property and be responsible for all Metro overtime fees.</i></p>	<p>➤ According to Metro, no meeting occurred between Metro and the MPC.</p>
VI. FACILITY	
<p>➤ <i>The MPC will provide at its own expense, all licenses and other permission necessary for the MPC's presentation in connection with the Event, including ASCAP and BMI Licenses, copies of which must be provided to the City by April 27, 2001.</i></p>	<p>➤ The City never received these licenses and permissions.</p>
<p>➤ <i>The decibel level will not be higher than 110 decibels for more than ten (10) minutes. The decibel level reading will be taken from the audio board by city of Las Vegas staff.</i></p>	<p>➤ No decibel level readings were taken by city staff.</p>

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AGREEMENT TERMS	DESCRIPTION OF NON-COMPLIANCE
VII. CONCESSIONS	
➤ <i>Food vendors will be required to obtain the proper license from Clark County Health Department.</i>	➤ According to the Clark County Health District, there were four vendors who did not obtain the proper license before the Event.
VIII. CONTROL OF PRODUCTION	
➤ <i>All sound levels must adhere to city ordinances and OSHA regulations.</i>	➤ Sound levels were not checked by city staff.
XI. INDEPENDENT CONTRACTOR	
➤ <i>The MPC shall be responsible for the payment of all necessary taxes, workers' compensation insurance and unemployment insurance.</i>	➤ No documentation showing compliance with this item was provided.
XII. INSURANCE	
<i>The MPC shall provide and maintain during the existence of this Agreement for protection of the MPC and the City the following insurance:</i>	
a. <i>Workers compensation insurance covering employee claims for job related injury, sickness or disease as required under the laws of the State of Nevada.</i>	➤ This was not provided to the City.
b. <i>General liability insurance in an amount of One Million and 00/100 Dollars (\$1,000,000.00) listing the City as an additional insured party. The MPC will provide to the City a copy of the Certificate of Insurance naming the City and Metro as additional insured parties thereunder by April 27, 2001.</i>	➤ This was not provided to the City until May 1, 2001. ➤ Metro was not named as additional insured.
ADDENDUM TO AGREEMENT	
➤ <i>Percentage of Gross Gate Admission: You will also need to provide a comp list.</i>	➤ The MPC did not provide a comp list.

**MANAGEMENT RESPONSES TO AUDIT
of the Mexican Patriotic Committee (MPC) for the Cinco de Mayo Celebration
on May 6, 2001 at Freedom Park**

RECOMMENDATION 1: Leisure Services should invoice and recover underpayments due from the Mexican Patriotic Committee.

Management Plan of Action: Leisure Services fully agrees that the underpayments should be collected. An invoice addressed to MPC has been prepared and will be sent requesting the underpayments and percentages owed as stated in the audit report, upon approval by Deputy City Manager.

Timetable: The invoice will be mailed "receipt request required" upon approval.

RECOMMENDATION 2: Leisure Services and the MPC should identify a reasonable and mutually acceptable method to determine the total vendor food and beverage sales.

Management Plan of Action: Leisure Services will identify and develop a fee structure that will take into account the purchases of beer, drinks, food, admissions, and booth fees for approval by Deputy City Manager.

Timetable: The new draft of the fee structure will be developed by August 10, 2001 for review by management.

RECOMMENDATION 3: Leisure Services should re-evaluate its contract administration and monitoring procedures to ensure proper contract oversight in the future.

Management Plan of Action: A timeline for when fees are due is being developed and will be based on the fee schedule. Additional monitoring procedures will be developed for approval.

Timetable: Further procedures will be researched and presented to management for approval by September 1, 2001.

RECOMMENDATION 4: Leisure Services should create and use a contract compliance checklist to document whether a contractor has complied with the terms and conditions of a contract.

Management Plan of Action: Leisure Services is developing a checklist for approval by management.

Timetable: The checklist can begin to be used by Leisure Services staff by August 10, 2001 upon management's approval.

**MANAGEMENT RESPONSES TO AUDIT
of the Mexican Patriotic Committee (MPC) for the Cinco de Mayo Celebration
on May 6, 2001 at Freedom Park**

RECOMMENDATION 5: Leisure Services should evaluate and document the adequacy of its contract pricing methodology.

Management Plan of Action: Leisure Services staff will look at alternative contract practices and present the findings that can be evaluated and considered for inclusion in the contract pricing methodology.

Timetable: This will be completed by August 15, 2001; the existing percentages are currently being utilized.

RECOMMENDATION 6: Leisure Services should hold contractors/promoters responsible for providing accurate and complete billing information.

Management Plan of Action: Leisure Services staff agrees to hold contractors/promoters responsible for providing accurate and complete billing information.

Timetable: This will be done for all future upcoming Special Events/Festival contracts. The feasibility of using additional methods of oversight will be reported to management by September 1, 2001.

RECOMMENDATION 7: Leisure Services should improve communication with Business Licensing and the Clark County Health District, and utilize their inspection results for contract monitoring purposes.

Management Plan of Action: Leisure Services fully agrees with this and has already begun communication with Business and Licensing. Staff will send a letter to the Health Department advising them of all upcoming festivals.

Timetable: This is currently in progress.